

June 12, 2006

Mr. David Ikari, Branch Chief  
Dairy Marketing  
California Department of Food and Agriculture  
560 J Street, Suite 150  
Sacramento, CA 95814

**Re: June 1-2, 2006 Class 4A-4B Hearing – Post Hearing Brief**

Mr. Hearing Officer and Members of the Panel:

I am submitting a post-hearing brief on behalf of Kraft Foods following the June 1-2, 2006 CDFA hearing on adjustments to the 4A and 4B milk price formulas.

**Question regarding whey issue in Federal Orders**

Mr. Gossard asked whether the whey factor is an issue in the Federal Orders. As I stated during the hearing, other participants were better qualified to answer that question.

To clarify my statement, the whey issue in the Federal Orders has not been addressed because the January 2006 Federal Order hearing was very narrow in scope and purposely did not include any issues with whey. That and other aspects of the Federal Order formulas are potential topics for a future hearing. Therefore, there is an issue with the whey factor in the Federal Order formula, and this will be addressed in a separate hearing.

**Question regarding movement of milk this year**

Mr. Ikari asked to provide additional details regarding my statement of milk being shipped out of state or disposed of earlier this year. I would like to clarify my statements.

My job entails keeping abreast of the milk supply and demand situation around the country to ensure adequate supply for our needs. Discussions with suppliers and industry participants earlier this year indicated a lack of manufacturing capacity in California and the need to move milk to other states for processing. According to the suppliers and industry participants we spoke with, the shortage of trucks to haul milk from the farm combined with the lack of manufacturing capacity resulted in some milk being disposed of on the farm. However, since we were told of this indirectly by other sources, we do not have exact data.

**Whey cream into cheese production**

There were several comments made by other people testifying at the hearing regarding the addition of whey cream into cheese production. My testimony clarified this topic by stating current Kraft specifications do not allow any whey cream in the cheddar cheese we purchase in California, largely used in our aging programs. Furthermore, we do not add whey cream to our parmesan cheese production at our Tulare plant. General

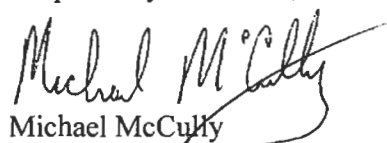
statements on this topic implied this is standard industry practice when, in fact, it is not from our perspective.

**Plant Capacity**

There was extensive testimony regarding plant capacity in the state. I shared where plant expansion has taken place in other states, as well as planned expansions or new plants, according to published data in a dairy trade publication. Of the 41 projects listed, only 3 were in California. To encourage additional manufacturing capacity in the state, specifically cheese, testimony detailed the need to update the current make allowances and remove the whey factor from the 4B formula. However, several producer representatives claimed any change to the make allowances would lower producer revenue by \$100-200mm per year. But this overlooks the fact that a substantial amount of manufacturing capacity is owned by cooperatives. Therefore, farmer co-op members actually are realizing losses now through their cooperative's losses in plant operations.

Thank you for the opportunity to provide a post-hearing brief.

Respectfully submitted,



Michael McCully  
Associate Director, Dairy Procurement  
Kraft Foods